



Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions

Amounts paid to you from your Thrift Savings Plan (TSP) account are taxable income to you for Federal income tax purposes in the year in which payment is made.

We are required by law to provide you with this notice; however, because the tax rules covered in this notice are complex, you may wish to consult a tax advisor before you make any decision that might be affected by them.

Special Note for Uniformed Services Accounts

TSP accounts for members of the uniformed services may include contributions from combat zone pay. Combat zone pay is exempt from Federal income taxes; therefore, TSP contributions from combat zone pay are also exempt from Federal income taxes when they are subsequently distributed from a uniformed services TSP account. (This is not true for the earnings attributable to contributions from combat zone pay; all earnings are taxable when they are distributed from a TSP account.)

The TSP will make all payments, including required minimum distributions, from a uniformed services account on a *pro rata* basis from both taxable and tax-exempt balances. A withdrawal made from a uniformed services TSP account will therefore include taxable and tax-exempt balances if the account includes contributions from combat zone pay. Internal Revenue Service (IRS) Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., which the TSP provides you, will separately state the total amount of your distribution and the amount of your taxable distribution. (*See Section 6 of this notice.*)

The minimum distribution (*see Sections 2 and 3 of this notice*) from uniformed services accounts is calculated based on your entire account balance, including your tax-exempt balance, if any. Unless otherwise noted, the discussion in Section 4, Tax Withholding from Your Withdrawal, applies only to the taxable portion of your payment.

1. Deadline for Withdrawing Your TSP Account

By April 1 of the year following the year you become age 70½ and are separated from Federal service, you must withdraw your entire account balance in a single payment, begin receiving monthly payments,

or purchase a TSP annuity. This withdrawal deadline conforms with Internal Revenue Code (I.R.C.) rules for “required minimum distributions” described in Section 2.

If you do not withdraw your account by the required deadline, your account balance will be forfeited to the TSP. You can reclaim your account, but you will not receive earnings on your account from the time the account was forfeited. In order to reclaim your account, you must make a withdrawal election.

2. Information About Required Minimum Distributions

The I.R.C. requires that you receive a portion of your TSP account (your “required minimum distribution”) beginning in the calendar year you become age 70½ and are separated from Federal service. That year is called your first minimum distribution year. If you do not withdraw your account balance or begin receiving payments from your account before or during your first distribution year, the TSP is required to make the required distribution to you by April 1 of the following year. That date is called your required withdrawal date, and that year is considered your second minimum distribution year.

If you withdraw your account in a single payment, begin withdrawing it through a series of monthly payments, or purchase an annuity, the TSP will ensure that your withdrawal satisfies the I.R.C. requirement. However, if your TSP account record has an incorrect birth or separation date, or if your agency or service is late in reporting the date of your separation, you may not receive a payment that satisfies the minimum distribution requirement by the applicable deadline. If this occurs, you may be subject to an IRS penalty tax of 50% on the amount that was not paid to you on time. To avoid this penalty, you must be sure that the information in your TSP record is correct and that your agency or service reports your separation promptly.

3. How Your Withdrawal Payment Satisfies the Required Minimum Distribution

The TSP calculates the amount of your required minimum distribution based on your account balance and your age using the Uniform Lifetime Table, Treas. Reg. § 1.401(a)(9)-9, Q&A-2, as published in the Federal

Register on April 17, 2002, 67 F.R. 18988, 19012.¹ (See page 7 of this notice.) The same table is used to calculate monthly payments based on life expectancy for a participant who is 70 or older. (See page 4.) If you withdraw your account using this option, you will therefore automatically satisfy the required minimum distribution.

If you make your withdrawal in the year you become age 70½ and are separated (i.e., in your first minimum distribution year), and

- *you take a single payment*, the required minimum distribution is included in that payment; or
- *you take a series of monthly payments (other than based on life expectancy)*, the TSP will ensure that minimum distribution payments are made directly to you and will increase your monthly payment, if necessary, to satisfy the minimum distribution requirement; or
- *you purchase an annuity*, the annuity payment will satisfy your minimum distribution requirement.

If you make your withdrawal in the year of your required withdrawal date (i.e., your second minimum distribution year), and

- *you take a single payment*, the required minimum distribution payments for both the first and second minimum distribution years will be included in that payment; or
- *you take a series of monthly payments (other than based on life expectancy)*, the first minimum distribution year's payment will be included in your first monthly payment. If necessary, the TSP will increase your payment to ensure that the minimum distribution requirement for the current and subsequent years is satisfied; or
- *you purchase an annuity*, the annuity payments will satisfy the required minimum distribution for both the first and second minimum distribution years if the annuity payments begin no later than April 1. As a practical matter, this means that your annuity must be purchased no later than February, because annuity payments do not begin until approximately 30 days after the purchase. Therefore, you should submit withdrawal forms in time for your withdrawal to be approved by the last day of January so that your annuity can be purchased in February. If your annuity is not purchased in February, the first year's required minimum distribution will be paid to you before the annuity purchase is made. The remainder of your account will be used to purchase the annuity.

¹ If you have both a civilian TSP account and a uniformed services TSP account, the minimum distribution is calculated separately for each account.

If you are required to receive a minimum distribution and you choose to transfer your single payment or a monthly payment to a "traditional IRA" or to an eligible employer plan,² you cannot transfer the entire payment(s) because the minimum distribution payment cannot be transferred. The TSP will calculate your required minimum distribution amount and mail it to you.

4. Tax Withholding from Your Withdrawal

TSP payments made directly to you are subject to Federal income tax withholding. For withholding purposes, there are three types of payments: **eligible rollover distributions**, **periodic payments**, and **non-periodic payments**. Federal income tax withholding rules are different for each type of payment, as described below. **The TSP does not withhold amounts for state or local income tax.**

Eligible Rollover Distributions

The following TSP payments are **eligible rollover distributions**:

- A single payment of your entire TSP account after you separate from service.
- An age-based in-service withdrawal payment.
- An automatic cashout payment (i.e., payout of an account that is \$3,500 or less).
- Monthly payments when the account is expected to be paid out in less than 10 years (except payments computed by the TSP according to the IRS life expectancy table). (See "Special Note About Monthly Payments" on page 4.)
- A final single payment made after a series of monthly payments.
- Amounts paid directly to you after the complete withdrawal of your TSP account (e.g., late contributions).
- Death benefits paid to the surviving spouse of a deceased participant.
- Payments made to a current or former spouse of the participant pursuant to an order of a court in

² A "traditional IRA" is an individual retirement account described at § 408(a) of the Internal Revenue Code (I.R.C.) or an individual retirement annuity described at I.R.C. § 408(b). (It does not include a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA).) An "eligible employer plan" includes a plan qualified under I.R.C. § 401(a), including a § 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; an I.R.C. § 403(a) annuity plan; an I.R.C. § 403(b) tax-sheltered annuity; and an eligible I.R.C. § 457(b) plan maintained by a governmental employer.

an action for divorce, annulment, or legal separation, or in response to an alimony or child support garnishment order.

The following tax withholding rules apply to eligible rollover distributions:

- The mandatory tax withholding on all eligible rollover distributions of \$200 or more paid in a single year is 20%. The 20% is tax withholding, not actual tax due; therefore, when you file your annual Federal income tax return, you may be entitled to a refund of a portion of this amount, or you may be required to pay an additional amount.
- You can avoid withholding on all or any portion of an eligible rollover distribution by asking the TSP to transfer that amount to a traditional IRA or to an eligible employer plan. However, you **can-not** avoid the mandatory 20% withholding on any amount that you elect to receive directly, even if you then roll it over to a traditional IRA or eligible employer plan. (See *Section 5 of this notice*.)
- You may elect to have an amount withheld in addition to the 20% withholding by completing Line 3 of IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments.³ You should submit this form to the TSP Service Office at the address provided at the end of this notice. Line 1 and Line 2 are not valid elections for this type of payment.
- There is no withholding on eligible rollover distributions that are less than \$200. The \$200 minimum amount applies to the total amount of all payments expected to be made in a single tax year. (For example, if you are receiving an eligible rollover distribution that is a series of monthly payments expected to last less than 10 years, the no-withholding rule will apply only if the total of the payments expected to be made in one tax year (the calendar year, for most taxpayers) is less than \$200). You can still elect withholding for any eligible rollover distribution of less than \$200 by completing Line 3 of Form W-4P.

Periodic Payments

The following TSP payments are **periodic payments**:

- Monthly payments, if the payments are made for 10 years or more. (See *“Special Note About Monthly Payments” on page 4*.)
- Monthly payments computed according to the IRS life expectancy table. (See *“Special Note About Monthly Payments” on page 4*.)

³ If you have both a civilian TSP account and a uniformed services TSP account, you must submit a separate IRS Form W-4P for each account.

Withholding for periodic payments is based on the assumption that you are a married individual claiming three withholding allowances, unless the TSP Service Office receives from you IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments. Withholding will be calculated using IRS Publication 15, *Employer's Tax Guide*, or IRS Publication 15-A, *Employer's Supplemental Tax Guide*. The IRS annually updates the instructions to Form W-4P to show the minimum periodic payment amounts on which there will be withholding.

If you submit IRS Form W-4P, you may elect:

- to have no Federal income tax withheld by completing Line 1 of Form W-4P; or
- to have Federal income tax withheld based on the allowances and marital status that you indicate on Line 2 of Form W-4P. Withholding will then be computed using the IRS publications referred to above; or
- to have an additional amount withheld by completing Line 3 of Form W-4P. The amount that you specify on Line 3 will be added to the amount that would otherwise be withheld, based on the assumption regarding withholding described previously, or based on the election you made on Line 2.

Your withholding election will remain in effect until the TSP Service Office receives a new IRS Form W-4P from you. A new withholding election will be effective beginning with the first payment after the form is processed. You may change elections concerning your withholding as often as you wish. Additional copies of Form W-4P are available from your local IRS office or from the TSP Service Office.

Note: Payments you receive from an annuity that the TSP purchases for you are also periodic payments. After your annuity is purchased, you will receive information from the annuity provider about making a withholding election.

Non-Periodic Payments

The following TSP payments are **non-periodic payments**:

- Financial hardship in-service withdrawals.
- Minimum distribution payments, i.e., payments required to be made to a participant automatically when he or she is age 70½ or older and separated from Federal civilian service or the uniformed services.

If minimum distribution payments are made to a participant who is receiving a series of monthly payments, the first payments made during a year will be considered the minimum distribution payments until the required minimum distribution amount for that year is reached. Subsequent payments will be treated as either eligible rollover distributions or

periodic payments for tax withholding purposes, according to their character. (See “*Special Note About Monthly Payments*” below.) If a payment is split between a minimum distribution and another type of payment, separate withholding will be applied to each part of the payment.

- Death benefits paid to someone other than the spouse of the participant.
- Payments made to someone other than the current or former spouse of the participant pursuant to an order of a court in an action for divorce, annulment, or legal separation, or in response to an alimony or child support garnishment order.

The TSP will withhold 10% for Federal income tax from these payments unless the TSP Service Office receives IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, from you (or the payee).

If you submit IRS Form W-4P, you may elect:

- to have no Federal income tax withheld by completing Line 1 of Form W-4P; or
- to have an amount withheld in addition to the 10% by completing Line 3 of Form W-4P.

Line 2 of Form W-4P is not a valid election for this type of payment.

Special Note About Monthly Payments

Monthly payments can be either **eligible rollover distributions** or **periodic payments**.

Monthly payments expected to be made for less than 10 years are treated as **eligible rollover distributions**, and are subject to mandatory 20% withholding unless the total paid in one tax year is expected to be less than \$200, or unless payments are transferred as explained in Section 5 of this notice.

Monthly payments expected to be made for 10 or more years or which are calculated based on life expectancy are subject to withholding under the **periodic payment** rules, as explained earlier.

Therefore, if you choose monthly payments, you should consider the category into which your payments will fall. The TSP will use the following rules in making this determination:

- **If you choose to have your payments based on life expectancy**, your payments will be treated as periodic, no matter how long they last. Payments are calculated based on IRS life expectancy tables.⁴

⁴ The IRS Single Life Table, Treas. Reg. § 1.401(a)(9)-9, Q&A-1, is used to calculate monthly payments based on life expectancy for participants who age 69 or younger. Once a participant turns 70, the Uniform Lifetime Table, Treas. Reg. § 1.401(a)(9)-9, Q&A-2, is used.

- **If you choose to receive a number of monthly payments**, withholding will be based on the number you choose. If you choose 120 or more monthly payments, your payments will be treated as periodic because they will be made over 10 years or more. If you choose 119 or fewer monthly payments, your payments will be treated as eligible rollover distributions.
- **If you choose to receive payments of a certain dollar amount**, the TSP must use a formula to determine whether your payments are expected to last for 10 years or more. This formula takes into account the effect of future earnings (at an assumed annual earnings rate of 8%). The TSP will divide your account balance at the time payments begin by the dollar amount you choose. If the result is 85 or more, your payments will be treated as periodic. If the result is less than 85, your payments will be treated as eligible rollover distributions.
- **If you change to a final single payment from a series of monthly payments**, that final payment will be treated as an eligible rollover distribution.

Special Note for Nonresident Aliens and Beneficiaries of Nonresident Aliens

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. For a detailed explanation of how these rules apply to you, please read the TSP tax notice “Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries.” You can obtain a copy of the notice from the TSP Web site (www.tsp.gov) or by calling or writing to the TSP Service Office.

A **nonresident alien** is an individual who is neither a citizen nor a resident of the United States.⁵ A **resident alien** is a non-citizen who is or was a lawful permanent resident of the United States during any part of a calendar year. An alien may also be considered a U.S. resident if the individual meets the IRS “substantial presence” test for a calendar year.⁶ For information on residency status and the tests for residency, you may obtain IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*, or IRS Publication 519, *U.S. Tax Guide for Aliens*.

Other Tax Withholding Information

You may request that there be no tax withholding from a periodic or a non-periodic payment. You can do so by completing Line 1 of IRS Form W-4P. If you submit Form W-4P with Line 1 completed and you subsequently decide you want tax withholding, you may revoke your

⁵ The “United States” includes the 50 States and the District of Columbia.

⁶ This is commonly referred to as the “green card” test.

prior decision by completing another Form W-4P and writing "Revoked" on Line 1 of the form. Taxes will then be withheld at the rate set by law.

If you do not have enough Federal income tax withheld from your payment, you may be responsible for paying estimated tax. You may also incur penalties under the IRS estimated tax rules if your withholding and estimated tax payments are not sufficient.

You can request additional withholding from a periodic or non-periodic payment or from an eligible rollover distribution. To do so for a periodic payment, complete Lines 2 and 3 of IRS Form W-4P. For a non-periodic payment or an eligible rollover distribution, complete Line 3.

If you complete Line 3 of IRS Form W-4P and the total amount of the withholding equals or exceeds the amount of your payment, your entire payment will be withheld.

The TSP does not withhold for state, city, county, or other local income tax. Therefore, you should consult your tax advisor or relevant state or local taxing authorities regarding any potential tax obligations to them.

5. Transferring or Rolling Over Your TSP Payment

If your payment is an **eligible rollover distribution** as described in Section 4, all or any part of it can either be transferred or rolled over to a traditional IRA or an eligible employer plan. This permits you to postpone paying tax on that amount until you withdraw the money from the IRA or the plan. However, distributions from the IRA or plan to which the transfer or rollover is made may be subject to different plan rules (such as spousal consent) and tax consequences from those that apply to distributions from the TSP. Before asking the TSP to make a transfer, you should consult with the administrator of the IRA or plan that is to receive your distribution.

A **transfer** occurs when you instruct the TSP to send all or part of your payment directly to a traditional IRA or eligible employer plan instead of issuing it directly to you. Mandatory 20% Federal income tax withholding does not apply to an amount that the TSP transfers directly to a traditional IRA or eligible employer plan; **however, it does apply to any payment made to you, even if you then roll it over.**

A **rollover** occurs when the TSP makes a distribution to you (which includes the amount of the payment you receive plus the amount of tax withheld) and you deposit any part of that distribution into a traditional IRA or eligible employer plan within 60 days of the date you receive it.

In deciding whether to choose a transfer or a rollover, you should consider the following:

- You must pay Federal income tax on any part of the payment that you do not transfer or roll over.
- Because all eligible rollover distributions of \$200 or more made directly to you are subject to mandatory 20% withholding, you must pay Federal income tax on the amount withheld for taxes — even if you roll over the amount you receive — unless you deposit personal funds into your traditional IRA or eligible employer plan equal to the amount withheld. (If you do this, you may receive a refund of taxes withheld, but you cannot wait until you receive a refund of the withheld amount to complete a rollover.)

Therefore, if you do not want to use personal funds to make up the amount withheld, you should choose to have the TSP transfer your account to your traditional IRA or eligible employer plan directly, instead of rolling it over to your IRA or plan yourself.

If you choose to receive a series of monthly payments that is expected to last for less than 10 years, your decision whether to transfer all or any part of a payment will apply to all later payments in the series unless you change your election to have funds transferred. You are free to make this change later.

Amounts paid to you as a minimum distribution because you have reached age 70½ may not be transferred or rolled over.

Special Note for Uniformed Services Accounts

Tax-exempt balances (i.e., contributions from combat zone pay) may be transferred or rolled over into a traditional IRA or transferred into certain eligible employer plans, but only if the IRA or plan accepts tax-exempt balances.

If you transfer or roll over a tax-exempt balance into a traditional IRA, it is your responsibility to keep track of the amount of these contributions and report that amount to the IRS on the appropriate form so that the nontaxable amount of any future distribution(s) can be determined.

In contrast, you may only transfer (not roll over) a tax-exempt balance to an eligible employer plan; you cannot first transfer or roll over a tax-exempt balance into a traditional IRA and then roll over that amount to an employer plan. The only types of eligible employer plans that can accept a transfer of tax-exempt balances from the TSP are plans qualified under I.R.C. § 401(a) and I.R.C. § 403(a) annuity plans; however, a plan is not legally required to accept such a transfer.

If the IRA or plan does not accept tax-exempt balances, the tax-exempt portion of the intended transfer will be removed from the amount that is being transferred and

will be paid directly to you. Tax-exempt balances in a uniformed services TSP account may not be transferred into a civilian TSP account.

6. Tax Reporting

The TSP will report to the IRS all payments (including required minimum distributions) that are made directly to you, as well as all transfers made to traditional IRAs or eligible employer plans. The TSP will also report TSP payments and transfers to the state in which your TSP account record shows you resided (or, for members of the uniformed services, your state of legal residence as reported by your payroll office) at the time the payments were made, if that state has an income tax.

Annuity purchases are not reported by the TSP to the IRS or to your state of residence. Payments made under an annuity that the TSP purchased for you will be reported for tax purposes by the annuity provider.

In January of the year that follows your TSP payment, the TSP will send you Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. You should include the taxable amount reported on Form 1099-R as income on your individual income tax return for the year in which payment was made. **You should keep the TSP informed of any changes in your address until this tax information is sent to you.**

7. Additional Tax Information

Taxable Distribution of TSP Loan Due to Separation from Service

If you separate from Federal civilian service or the uniformed services with an outstanding TSP loan and you do not repay the entire loan, a taxable distribution of your outstanding loan balance must be declared before a withdrawal can be processed. (You may want to elect additional withholding from your TSP withdrawal or from other payments made to you in the same year to cover the tax you must pay on your loan distribution.)

You may deposit any amount up to the taxable amount of the distribution into a traditional IRA or eligible employer plan using your personal funds, thereby avoiding current tax. You must make the deposit within 60 days of the date of declaration of the taxable distribution.

Special Note for Uniformed Services Accounts

If your account includes tax-exempt contributions (from combat zone pay) and you have a loan that is declared to be a taxable distribution, not all of the outstanding loan balance will be taxable. At the time the loan is declared to be a taxable distribution, the TSP will determine the proportions of the loan balance that are tax-exempt and taxable. You may also deposit the tax-exempt amount into a traditional IRA if the IRA will accept it.

Ten-Year Tax Option

If the payment you receive from the TSP qualifies as an **eligible lump sum distribution**, you may be able to lower the income tax you pay by using the **10-year tax option**.

An **eligible lump sum distribution** is one in which your total TSP account balance (if you have two accounts, your civilian and uniformed services TSP accounts, including tax-exempt balances, if any) is distributed to you within one tax year (the calendar year, for most taxpayers), regardless of whether this occurs in one or more payments. This means that an eligible lump sum distribution — whether distributed to you by the TSP in a series of monthly payments, in a subsequent payment made after your initial withdrawal, or in a taxable loan distribution — must be distributed to you in the same tax year. With the 10-year tax option, your eligible lump sum distribution is taxed as if it were paid to you over 10 tax years.

The following rules apply to the 10-year tax option:

- The 10-year tax option is available only if you were age 50 before January 1, 1986.
- You must have been an **active participant** in the TSP for at least five years before the year in which your distribution is made. You are considered an active participant during a year if either you or your agency made a contribution to your TSP account during that year.
- You must use the 10-year tax option for all eligible lump sum distributions that you receive in the same tax year. This includes a withdrawal of your entire TSP account after separation and any taxable loan distribution. It also includes an eligible lump sum distribution from any plan described in I.R.C. § 401(a) or § 403(a) which is maintained by another employer.

- You can use the 10-year tax option only once in your lifetime for eligible lump sum distributions from your employer(s). This means that if you use it in one tax year (e.g., for an age-based in-service withdrawal of your entire TSP account balance), you cannot use it for a distribution of your account from the TSP or from another plan in any subsequent year.
- You must use the tax rates in effect in 1986.
- If you transfer or roll over all or any part of your distribution, you cannot use the 10-year tax option.

You can elect the 10-year tax option by filing IRS Form 4972, Tax on Lump Sum Distributions, with your annual income tax return.

8. TSP Service Office Information

If you have any questions regarding this notice, please contact the TSP Service Office at (504) 255-8777 or TDD (504) 255-5113, or write to:

TSP Service Office
National Finance Center
P.O. Box 61500
New Orleans, LA 70161-1500

Uniform Lifetime Table for Calculating Minimum Distributions*

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	86	14.1	101	5.9
71	26.5	87	13.4	102	5.5
72	25.6	88	12.7	103	5.2
73	24.7	89	12.0	104	4.9
74	23.8	90	11.4	105	4.5
75	22.9	91	10.8	106	4.2
76	22.0	92	10.2	107	3.9
77	21.2	93	9.6	108	3.7
78	20.3	94	9.1	109	3.4
79	19.5	95	8.6	110	3.1
80	18.7	96	8.1	111	2.9
81	17.9	97	7.6	112	2.6
82	17.1	98	7.1	113	2.4
83	16.3	99	6.7	114	2.1
84	15.5	100	6.3	115+	1.9
85	14.8				

* A required minimum distribution is calculated as illustrated in the following example:

The participant reaches age 75 in 2003. As of December 31, 2002 (the last day of the calendar year immediately preceding the calendar year for which the required distribution will be made), the value of the participant's TSP account was \$229,000. Based on the table above, the expected distribution period in years for a 75-year-old individual would be 22.9, so the participant would divide \$229,000 by 22.9. Through this calculation, the participant would determine that a minimum distribution of \$10,000 would be required for calendar year 2003. (**Note:** That \$10,000 must be distributed to the participant no later than December 31, 2003.)